



## Canada Council for the Arts

Report presented to the Board  
of Directors

26 June 2008

### Special Examination Report



Office of the Auditor General of Canada  
Bureau du vérificateur général du Canada

*All of the audit work in this report was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.*

*Ce document est également publié en français.*



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To the Board of Directors of  
Canada Council for the Arts

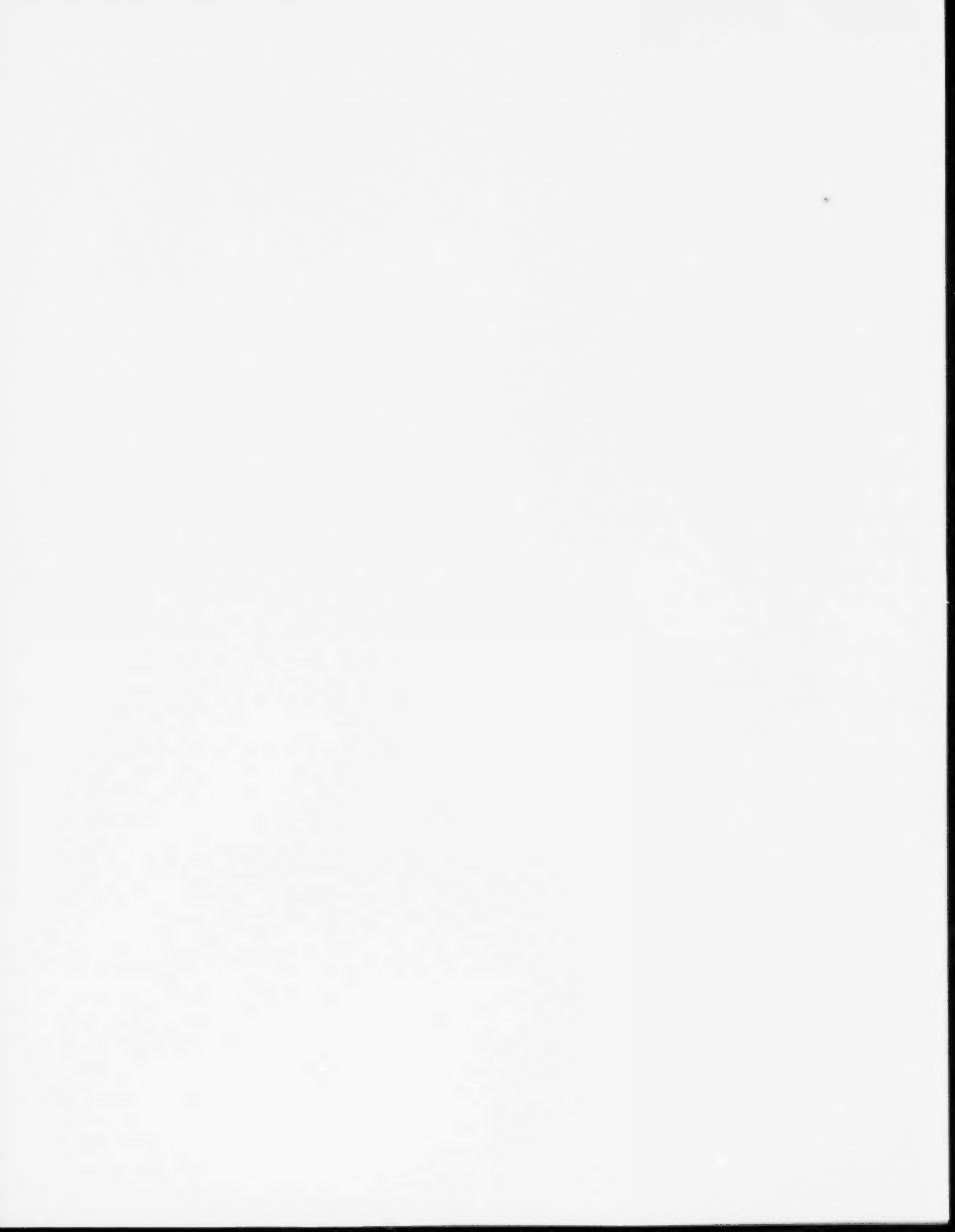
We have completed the special examination of the Canada Council for the Arts in accordance with the plan presented to the Audit and Finance Committee of the Board of Directors on 14 January 2008. As required by Section 139 of the *Financial Administration Act* (FAA), we are pleased to provide the attached final special examination report to the Board of Directors.

I would like to take this opportunity to express my appreciation to the Board members, management and the Corporation's staff for the excellent co-operation and assistance offered to us during the examination.

Yours sincerely,

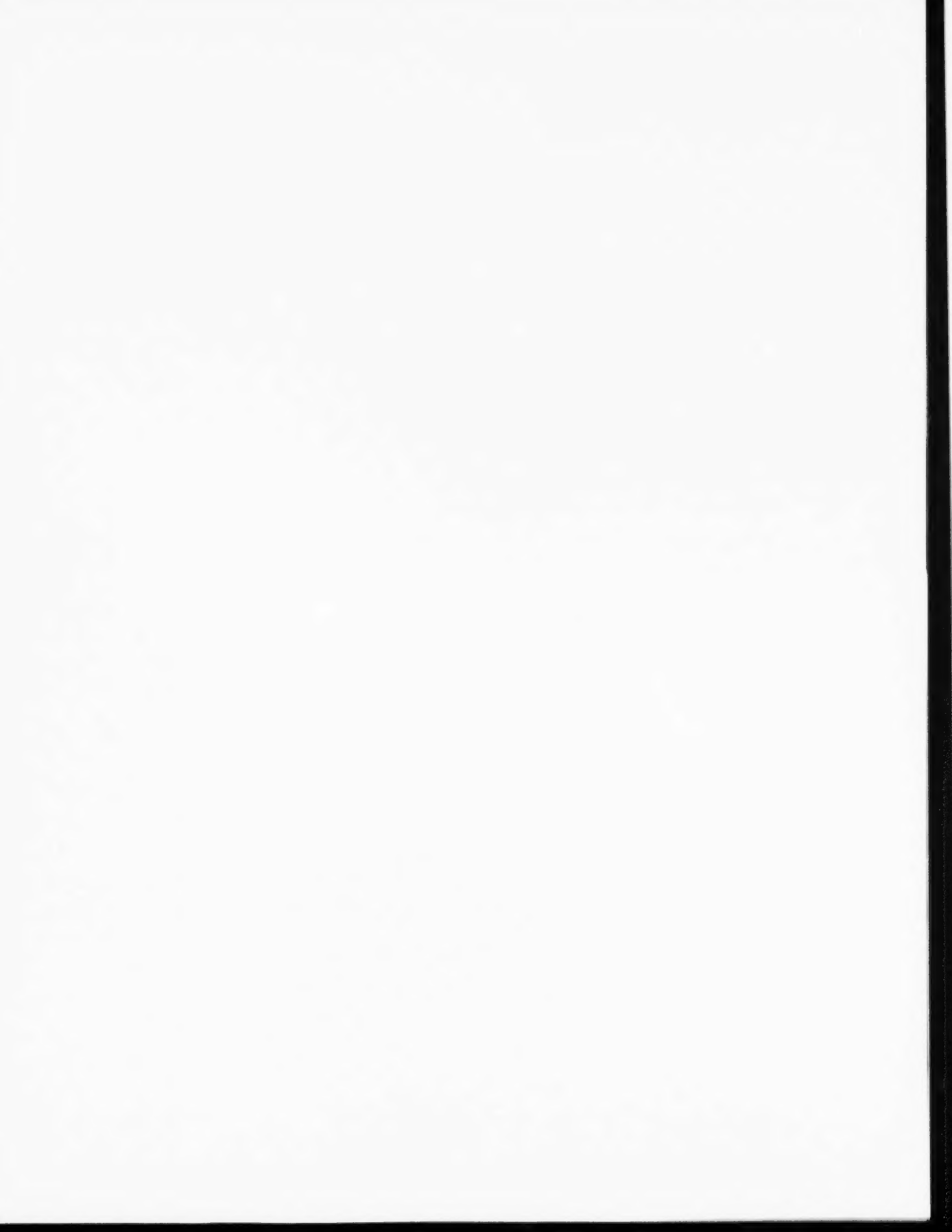
Sylvain Ricard CA, CMA  
Assistant Auditor General

Attach.



# Table of Contents

|                                                                                                                                                                 |           |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| <b>Main Points</b>                                                                                                                                              | <b>1</b>  |
| <b>Special Examination Opinion</b>                                                                                                                              | <b>3</b>  |
| <b>Overview of the Canada Council for the Arts</b>                                                                                                              | <b>5</b>  |
| Special Examination objectives                                                                                                                                  | 6         |
| <b>Observations and Recommendations</b>                                                                                                                         | <b>7</b>  |
| <b>Grants to artists and arts organizations</b>                                                                                                                 | <b>7</b>  |
| The Canada Council could improve aspects of its peer assessment process<br>and of its internal assessment process                                               | 7         |
| <b>Governance of the Canada Council for the Arts</b>                                                                                                            | <b>13</b> |
| The governance framework and practices applied by the Canada Council are appropriate                                                                            | 13        |
| <b>Strategic planning</b>                                                                                                                                       | <b>15</b> |
| The Canada Council has defined strategic directions and adopted the necessary<br>action plans to implement them                                                 | 16        |
| <b>Performance measurement and reporting</b>                                                                                                                    | <b>17</b> |
| The Canada Council compiles and publishes core information on its achievements                                                                                  | 18        |
| <b>Human Resources</b>                                                                                                                                          | <b>19</b> |
| The Canada Council has the human resources management systems necessary<br>to retain a staff with the skills and qualifications required to fulfill its mandate | 20        |
| <b>Conclusion</b>                                                                                                                                               | <b>21</b> |
| <b>About the Special Examination</b>                                                                                                                            | <b>22</b> |
| <b>Appendix</b>                                                                                                                                                 |           |
| List of recommendations                                                                                                                                         | 25        |





# Canada Council for the Arts

## Special Examination Report—2008

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### Main Points

#### What we examined

The Canada Council for the Arts was created as a federal Crown corporation in 1957. Its mandate is to foster and promote the study and enjoyment of the arts, and the production of the works of art. The Canada Council offers a broad range of grants and services to professional Canadian artists and arts organizations in music, theatre, writing and publishing, visual arts, dance, media arts, and interdisciplinary and performance art.

In 2006–07, the Canada Council processed approximately 16,000 grant applications and awarded a total of \$152 million to some 6,600 individual artists and arts organizations. The Canada Council has about 200 employees.

We examined the Canada Council's systems and practices in the areas of grant management, governance, strategic planning, performance measurement and reporting, and human resources management. Our objective was to determine whether those systems and practices provide the Canada Council with reasonable assurance that its assets are safeguarded and controlled, that its resources are managed economically and efficiently, and that its operations are carried out effectively.

#### Why it's important

The creation, production, and dissemination of works of art help to develop a society that is creative, innovative, and open to the world. By financially supporting Canadian artists and arts organizations, the Canada Council contributes to this development and brings together citizens of diverse backgrounds and circumstances. The Canada Council aims to support artistic excellence: therefore, it must ensure, through its management systems and practices, that it awards financial support to the most deserving artists and arts organizations, and that it does so in a fair, consistent, and objective manner.

#### What we found

The systems and practices we examined had no significant deficiencies. In fact, the Canada Council's systems and practices have contributed to its success in several areas.

- For grant management, the Canada Council has implemented a series of policies and procedures that as a whole ensure that grant

applications are processed in a fair, consistent, and objective manner. Generally speaking, the Canada Council has properly applied these policies and procedures.

- For governance, the responsibilities of Board members are clearly defined, and the Canada Council has an established policy framework and practices to ensure its own independence, as well as to manage conflicts of interest.
- For planning, the Canada Council has adopted new strategic directions and developed action plans to implement its strategic directions.

However, we noted some areas that would benefit from improvement.

- The Canada Council has paid \$1.2 million to a limited number of projects that it considered to be of an exceptional nature. However, it has not submitted these projects to a peer assessment process. We did not find any policy supporting this practice. Furthermore, the Canada Council does not specify in its public documents which grants were awarded through this process. This puts the reputation for objectivity that the Canada Council for the Arts currently enjoys at risk.
- The Canada Council currently offers over 140 grant programs to artists and arts organizations. This number may increase as the arts continue to diversify. The range of programs needs to be examined to determine if it appropriately supports the Canada Council's new strategic directions. Such an examination could improve the Canada Council's efficiency.

*The Canada Council for the Arts has responded. The Canada Council for the Arts agrees with the recommendations. Its responses follow the recommendations throughout the report.*

## Special Examination Opinion

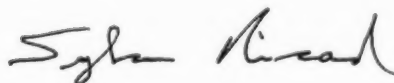
To the Board of Directors of the Canada Council for the Arts

1. Under section 131 of the *Financial Administration Act* (FAA), the Canada Council for the Arts is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.
2. The Canada Council is required under section 138 of the FAA to have a special examination of these systems and practices carried out at least once every five years.
3. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination, from October 2007 to April 2008, there were no significant deficiencies in the systems and practices we examined.
4. We based our examination plan on a survey of the Canada Council's systems and practices, which included a risk analysis. We submitted the plan to the Audit and Finance Committee of the Board of Directors on 14 January 2008. The plan identified the systems and practices that we considered essential to providing the Canada Council with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. Those are the systems and practices that we selected for examination.
5. The plan included the criteria for the special examination that we selected specifically for this examination in consultation with the Canada Council. The criteria were based on our experience with performance auditing. Our choice of criteria was also based on the guidelines of the Canadian Institute of Chartered Accountants. (The criteria, and the systems and practices examined, are provided in the section entitled "About the Special Examination" at the end of this report.)
6. We conducted our examination in accordance with our plan and with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. Accordingly, it included the tests and other procedures we considered necessary in the circumstances. In carrying out the special examination, we did not

rely on the internal audits of the Canada Council for the Arts, because the internal audits available were not recent enough.

7. In our opinion, there is reasonable assurance that there were no significant deficiencies in the systems and practices we examined with respect to the criteria established for the examination.

8. The rest of this report provides an overview of the Canada Council and more detailed information on our examination findings and recommendations.



Sylvain Ricard, CA, CMA  
Assistant Auditor General

Ottawa, Canada  
30 April 2008

## Overview of the Canada Council for the Arts

9. The Canada Council for the Arts was established by the *Canada Council Act* as a federal Crown corporation in 1957. Under the terms of the Act, its mandate is to foster and promote the study and enjoyment of the arts, as well as the production of works of art.

10. The Canada Council for the Arts offers a wide range of grants and services to Canada's professional artists and arts organizations working in music, theatre, writing and publishing, visual arts, dance, media arts, interdisciplinary and performance art. Notable among the grants awarded by the Canada Council are grants that support the creation, production, and dissemination of the arts; project grants that include those for touring and travel; as well as annual and multi-year operating funds for arts organizations. The Council also aims to increase public interest in the arts through communication, research, and promotion of the arts.

11. The Canadian Commission for UNESCO operates under the aegis of the Canada Council for the Arts. The Commission is responsible for encouraging participation in and contribution to UNESCO activities at all levels, including that of governments, individuals, and organizations. The Public Lending Right Commission, which is responsible for distributing payments annually to Canadian authors whose books are on the shelves of Canadian public libraries also falls under the stewardship of the Canada Council for the Arts. The Canada Council Art Bank holds some 18,000 pieces of contemporary Canadian artwork, which it rents to the private and public sectors.

12. The Canada Council funds its activities through parliamentary appropriations and through income from endowments, donations, and bequests. In 2006–07, the Canada Council received a \$172.5 million parliamentary appropriation, and benefited from net revenue of some \$25.9 million from its endowment fund and other sources. That same year, the Canada Council received nearly 16,000 grant applications. It awarded a total of \$152 million in grants to 2,200 artists and 4,400 arts organizations in over 600 communities. The Canada Council presented prizes and awards to about 200 artists and researchers. The Canada Council carried out all of these activities with a staff of about 200 employees.

13. In October 2007, the Canada Council for the Arts published its strategic plan for 2008–11. Five directions will guide the Canada Council's activities in the next few years:

- **Artists:** Reinforce the Canada Council's commitment to individual artists, working alone or collaboratively, as the core of artistic practice in Canada.
- **Arts organizations:** Broaden the Canada Council's commitment to arts organizations, to strengthen their capacity to underpin artistic practices in all parts of the country.
- **Equity:** Enhance the Canada Council's leadership role in promoting equity as a critical priority in fulfilling Canada's artistic aspirations.
- **Partnership:** Make partnerships with other organizations a key element in the Canada Council's approach to advancing its mandate.
- **Organizational development:** Enhance the capacity to support the arts and to implement change, by strengthening its structure, staffing, and services.

14. In February 2008, the Canada Council published an action plan, the goal of which is to implement these five strategic directions.

#### **Special Examination objectives**

15. We examined the Canada Council's systems and practices in the areas of grant management, governance, strategic planning, performance measurement and reporting, and human resources management. Our objective was to determine whether these systems and practices provide the Canada Council for the Arts with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

16. Further details on the audit objectives, scope, criteria, and approach are provided in **About the Special Examination** at the end of the report.

## Observations and Recommendations

### Grants to artists and arts organizations

17. Of all the decisions made by the Canada Council for the Arts, those that award grants to artists, arts organizations, and artistic projects are the most sensitive and the most likely to provoke criticism because they are the most visible.

18. We expected the Canada Council for the Arts to have clear policies and procedures to ensure that grant recipients are selected and grants awarded, administered, and monitored in a manner that is fair, consistent, and objective.

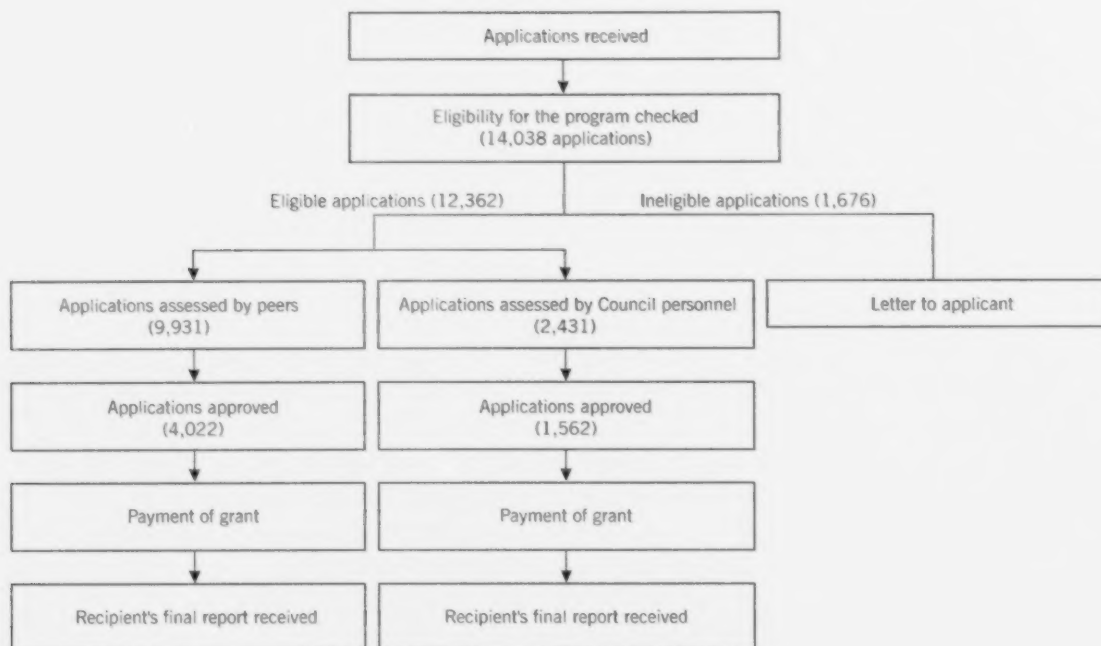
19. We noted that the Canada Council for the Arts had implemented a framework of policies and procedures that has generally allowed grant applications to be processed in a fair, consistent, and objective manner. We also noted that the Canada Council had in general properly applied its policies and procedures for processing grant applications. However, we noted that the Canada Council could improve its controls in the processing, evaluation, and approval of a limited number of applications of an exceptional nature and in the documentation of Canada Council program officers' decisions.

#### **The Canada Council could improve aspects of its peer assessment process and of its internal assessment process**

20. We examined the framework of policies and procedures implemented by the Council to ensure that grant applications are processed in a fair, consistent, and objective manner. This framework includes, among other things, policies and procedures that apply to the complete cycle of operations required to process grant applications, from the receipt of applications through to communication of the results. It also includes the objectives, criteria, and other requirements of financial support programs as well as the communications activities that inform the public of the programs and services offered by the Canada Council for the Arts. A mechanism for processing complaints is in place.

21. **Grant application processing.** The processing of grant applications comprises three main steps: eligibility, assessment, and communication of results. Exhibit 1 illustrates this process and provides some operational data for 2006–07.

Exhibit 1 Key steps in processing grant applications



The above figures do not include endowments and prizes or applications to prizes and fellowships, the Art Bank, the Public Lending Right Commission, and those received further to the \$20 million increase in the 2006-07 Parliamentary appropriation.

Source: Canada Council for the Arts, 2006-07

**22. Eligibility.** According to its policy, when an application is received by mail or electronically, the Canada Council for the Arts opens a grant file, adds to it the application and any other accompanying document, and where necessary adds certain administrative information to its database. If the application was not submitted by the specified deadline, that is, if the postmark on the envelope is after the date the competition closed, a note is entered in the grant file. The grant files are then forwarded to program officers who are responsible for assessing the eligibility of the application based on the following criteria: whether the application was submitted within the deadline; completeness of the application; eligibility of the project; and eligibility of the applicant. The officers write letters to applicants whose application was deemed ineligible, explaining the reasons for the decision. Applications that are deemed eligible move on to the assessment stage. Eighty-eight percent of applications received in 2006-07 were deemed eligible.

23. When we examined a sample of grant files, we noted that all the applications had been assessed for eligibility. Those grant files containing applications that had been deemed ineligible included the reasons for refusal. However, grant files containing eligible applications did not contain a written rationale for the program officer's decision. By speaking to a few officers, we learned that they had analyzed the applications, but were not required by current policies to include the analysis in the grant file. Because there was no documentation, we were unable to determine whether applications deemed eligible had been mailed or transmitted within the prescribed deadline. The program officers felt that the number of late applications was low.

24. **Peer assessment.** This step involves creating peer assessment committees, the assessment of the applications by peers, and the creation of a list of selected candidates with the recommended grant amount. In 2006–07, eighty percent of eligible applications were assessed by peers. The value of grants awarded after evaluation of these applications was about \$82.4 million.

25. The Canada Council for the Arts uses peer assessment as its primary decision making mechanism for grants. Peer assessment means the use of artists and other professionals working in the field to assess grant applications, determine the order of priority, and make recommendations on awarding grants. In the Council's definition, peers are people who, by virtue of their experience, knowledge, and open-mindedness, are capable of making a fair and informed assessment of the comparative merits of grant applications. Through peer assessment, the Canada Council involves the arts community directly in its operations.

26. In Canada and around the world, peer assessment is widely used by arts funding bodies, but it is not confined to the arts. It is the most common method for assessing qualitative achievement in creative and intellectual fields.

27. Selecting peer assessment committee members is a major responsibility of the Canada Council's program officers. For each competition, officers choose peers from the artistic discipline(s) most closely related to the program, giving particular consideration to how representative the committee members are of factors such as age, gender, and official languages, as well as diversity of specializations, artistic practices, regional perspectives, and cultural backgrounds. To this end, officers can consult a database containing the names of peers who have already served on a committee and the names of new peers,

that is, individuals who are qualified to act as peer assessors but who have never done so.

**28.** After examining a sample of peer-assessed grant files, we found that the Canada Council for the Arts had in general properly applied the expected policies and procedures for peer assessment. However, it would be possible to improve the documentation of decisions taken by program officers:

- The Canada Council has a policy that a peer may serve on an assessment committee no more than once every 24 months. Among the 82 peers who participated in the assessment of the grant files that we examined, four had served on more than one committee during the stipulated period. No written authorization from the Director of the Arts Division was on file in these four cases.
- Among the 82 peers, 15 had declared a conflict of interest at the beginning of assessment committees. Documentation on file revealed that seven of the peers had abstained from the deliberations and the committee vote on applications that they considered conflict of interest cases. We were unable to determine whether these steps had also been taken by the eight remaining peers because there was no documentation on file.
- The results of the peer committee's assessment and the peers' signatures were on file.
- Each program officer responsible for a peer committee had, in accordance with the Canada Council's policy, prepared a report on the results of the peer assessment process. These reports were submitted to the Board of Directors.

**29. Assessment by Canada Council staff.** In 2006–07, about twenty percent of eligible applications were not peer-assessed. They were instead assessed internally by Council staff. The value of grants awarded to these applications was approximately \$5.4 million.

**30.** Three types of application are assessed internally. The first type is mostly made up of applications for travel grants. In general, these can be submitted at any time. There are many of them. They usually involve a low level of funding, and they must be assessed quickly. The Canada Council normally forms three-person committees to assess these applications and to prepare a list of the successful applicants. In the Canada Council's view, internal assessment makes it possible to process these applications economically and efficiently.

The total value of the grants awarded for this first type of application was approximately \$4 million in 2006–07.

31. The second type of application includes those that may be financed through the Director's reserve, which the Board allocates to the Director of the Canada Council. The purpose of this reserve is to allow the Canada Council to support projects that do not fit easily into its regular programs or one-time unforeseen projects. According to the Canada Council, only arts organizations may submit this type of application, which is for one specific project, not the organization's operations. It is the Council's practice to discuss these applications with the Executive Management Committee before the Director of the Canada Council decides whether to award the grant or not. The decision to award the grant must then be presented to the Board for information. Five of the six applications received in 2006–07 as part of this program were accepted, for a total value of approximately \$155,000.

32. The third type of application includes those that are of an exceptional nature, that are theoretically eligible for one of the Canada Council programs, and that are non-recurring. The Arts Division approves these applications and provides financing through regular program funding. In 2006–07, the Arts Division approved 46 applications of this type and awarded grants totalling \$1.2 million.

33. We noted that the Canada Council had not established a policy to guide the Arts Division's decisions in this area. We also found that the applications approved by the Director of the Arts Division had not been clearly communicated to the Board. Furthermore, in public documents, the grants to these selected organizations are presented as if the application had been assessed by peers, when the applications were in fact evaluated internally.

34. According to the Canada Council, this mechanism, like the Director's reserve, is meant to provide the Canada Council with greater flexibility in the management of its grants. To maintain its reputation for objectivity and transparency, the Canada Council for the Arts would be well advised to better monitor the administration of these applications of an exceptional nature, for instance, by submitting them to the same controls as those in place for applications that receive financing from the Director's reserve.

35. **Communication of results.** At this stage, the Director of the Canada Council approves grants of up to \$100,000 and informs the Board of his decisions. The Board approves grants for more than \$100,000. The Canada Council then notifies the successful

applicants of the amounts awarded and asks the applicants to formally agree to comply with the terms and conditions of the grant. Our examination showed that all cases had been approved in keeping with the Canada Council's policy.

**36. Public information on grant programs offered.** We found that the Canada Council had drawn up promotional and communication action plans and policies focused on target groups, that it had provided information sessions for people or for groups of people who had asked for them, and that it had posted a great deal of useful information for the public on its website.

**37. Complaints processing.** We found that it was the Canada Council's policy to answer requests from people who asked for explanations of the assessment process for their application, or of the rationale for decisions made by peers. Applicants who are dissatisfied with these explanations can submit a written complaint to the Director of the Arts Division. In such cases, the Director of the Arts Division prepares and sends a formal response to the person. A record of complaints is maintained in a correspondence registry. Any applicant who is still not satisfied can then lodge a complaint with the Director of the Canada Council or with the Board.

- 38. Recommendations.** The Canada Council for the Arts should
- enter into its grant database the date all the applications are sent, so as to monitor the application of its eligibility policies and procedures;
  - include in the grant files the rationale for the decisions made by officers at various stages in processing grant applications;
  - enhance controls in processing and approving the grant applications of an exceptional nature and clearly communicate the awarding of these grants to the Board and the public.

**Response from the Canada Council for the Arts.** *The Canada Council agrees with these recommendations, and will implement the following procedures:*

- *The date grant applications are sent to the Council will be entered in the Arts Tracking System (ATS) database to enable the staff to monitor the application of eligibility policies.*
- *Documenting the rationale of decisions made by officers started in 2007–08. The Canada Council will continue to review and monitor how decisions are documented in grant files with a view of having*

improved documentation throughout the grant process, and will propose specific actions to ensure this is done consistently and appropriately.

- The grants awarded by the Director of the Arts Division (now called the Arts Disciplines Division) are internally assessed by Program Officers and Section Heads, and recommended for approval to the Director of Arts Disciplines. A complete review of this process will be undertaken that will include elements such as eligibility criteria, assessment and approval process, as well as communicating and publishing results.

*These grants will be communicated to the Board and to the public through distinct program reports that clearly illustrate the assessment and approval process. As well, information about internal assessment processes will be added to the Canada Council's Peer Assessment Policy in 2008–09.*

## **Governance of the Canada Council for the Arts**

39. Corporate governance is about the structures, systems, and practices that serve to monitor the direction and management of an organization so that it can fulfill its mandate and achieve its objectives. The basic governance structure of a Crown corporation is the Board of Directors.

40. We expected the Canada Council for the Arts to have a corporate governance framework and practices that perform well and that meet the expectations of best practices in Board stewardship, stakeholder relations, and communication with the public.

41. We found that the Board of Directors and the Executive Management Committee of the Canada Council for the Arts had applied appropriate governance practices.

### **The governance framework and practices applied by the Canada Council are appropriate**

42. We examined the mandate, composition, and functioning of the Board of Directors as well as the application of various policies, including the conflict of interest management policy.

43. **Board of Directors.** The Canada Council for the Arts is governed by an eleven-member Board of Directors (Board). The Board Chair, Vice-Chair, and members are appointed by the Governor in Council for fixed terms. As of 30 April 2008, all the positions were occupied except that of the Chair, who left in March 2008. The members of the Board represent different linguistic and cultural groups, diverse regions, Aboriginal peoples, and various arts

disciplines. They bring to the table their experience and skills in the arts (as professional artists or individuals involved in the arts community), governance and administration, finance and management, as well as marketing and communications. The Board Nominating Committee drew up a profile of skills and expertise that takes into account the experience and skills that the Board of Directors requires.

44. The responsibilities of the members of the Board are clearly defined and include, among other things, approval of the Canada Council's policies, programs, budgets, strategic direction and corporate plan, monitoring of the peer assessment system's integrity, authorization of grants, representation of the Canada Council at public events, and explanation, to the arts community, government officials, and the general public, of the Canada Council's role in supporting the arts. The Board meets at least three times a year.

45. The independence of the Board is ensured through various mechanisms: having sufficient expertise to carry out its duties; allowing only Board members to vote and make decisions; holding *in camera* meetings to discuss issues of interest to the Board; holding *in camera* meetings of the Board and the Director of the Canada Council to discuss issues that in the opinion of the Chair and the Director do not require the involvement of other Canada Council executives; obtaining from management extensive information on the Canada Council's activities.

46. Members of the Board may find themselves in conflict of interest situations as a result of their full-time employment or as a result of their current or previous experience in the arts community. The Canada Council's policies in this regard, which are contained in the By-Laws of the Canada Council and the Code of Ethics for Council Board members, require all members of the Board to declare any conflict of interest that could compromise the integrity of the Canada Council and to avoid any such situation. We noted that Board members who had declared a conflict of interest had abstained from participating in Board deliberations on such files.

47. **Standing committees of the Board of Directors.** Five standing committees assist the Board: the Executive Committee, the Audit and Finance Committee, the Investment Committee, the Governance Committee, and the Nominating Committee. We examined the mandate and functioning of the Audit and Finance Committee and the Investment Committee.

48. We found that the Audit and Finance Committee had fulfilled its responsibilities properly. However, we noted that the terms of reference of the Committee did not reflect some of the tasks performed. These included several aspects of internal auditing, such as the approval of the three-year internal auditing plan and the approval of audit reports.

49. We also noted that the Canada Council had created an appropriate management and control framework for its investment activities (\$320 million portfolio). This framework includes an Investment Committee of individuals experienced and skilled in investments, an investment consultant responsible for advising the committee on issues such as investment strategies to be adopted, the analysis of portfolio performance, and recruitment of new investment managers. This committee regularly examines the performance of the Canada Council's investment portfolio based on established parameters and updates the Board on results.

50. As with the Audit and Finance Committee, the Investment Committee had properly fulfilled its responsibilities, but some of its work fell outside its terms of reference. The Investment Committee's mandate needs to be more clearly spelled out by indicating that performance evaluation of the managers and the investment consultant is one of the Committee's duties. There is also a need to specify how often the Committee is to meet and to document the process and criteria used for the selection of new Investment Committee members as well as the evaluation results for the managers and the investment consultant.

51. **Recommendation.** The Canada Council for the Arts should update the terms of reference of the Audit and Finance Committee and the Investment Committee.

*Response from the Canada Council for the Arts.* The Canada Council By-Laws outline the terms of reference for all Board committees. A review of the By-Laws began in early 2008 and will include updating the terms of reference for the Audit and Finance Committee and the Investment Committee.

## Strategic planning

52. Many factors have an impact on the arts sector and artistic practice. Demographic changes (increasing urbanization, aging population, diversity of ethnicity, culture, and language) influence Canadian values. Technological changes transform the means of production, dissemination, and consumption of culture. Artistic practices, such as the production of multi-disciplinary, multi-media

works of art, and the increasing geographic mobility of artists are changing.

53. We expected the Canada Council for the Arts to have defined clear strategic directions and to have set specific, measurable goals and objectives for achieving its mandate. We also expected that the strategic direction and goals would take into account the risks identified, the need to control and protect the Canada Council's assets, and the need to manage its resources economically and efficiently.

54. We noted that the Canada Council has an appropriate strategic planning process that enables it to guide its programs and activities.

**The Canada Council has defined strategic directions and adopted the necessary action plans to implement them**

55. We examined the strategic planning process and the extent of harmonization among the strategic plan, the operational plans, the budgets, and the risk management practices.

56. **Strategic directions.** In October 2007, after several months of consultation with staff, the Board, the arts community, other funders, the federal government, and the general public, the Canada Council for the Arts published a new Strategic Plan in which it set out, among other things, its vision for the future and the values and directions that will guide it during the next three to five years. This plan will be the cornerstone of the Canada Council's corporate plan for 2008–11. In February 2008, the Canada Council for the Arts published an action plan detailing the strategies and budgets it intends to use to implement its strategic directions.

57. The Canada Council used a rigorous planning process. It analyzed the context and conditions of artistic practice in Canada, compared itself to other funding bodies, and analyzed its own strengths and weaknesses. After identifying the major strategic issues, it developed strategic directions and implementation plans to support these directions. A budgetary allocation process was implemented to ensure that resources were being allocated in keeping with the strategic directions. As a result of this process, the Canada Council aligned its action plans and resources with its strategic directions and developed performance indicators of the "output" type.

58. **Risk management.** As with any activity, awarding grants entails risks that the Canada Council must manage if it wishes to meet its objectives. We therefore expected the Canada Council to pay special

attention to risks at all levels, particularly those involving program delivery and administration. This attention should help the Canada Council to fulfill its mandate and achieve its goals and objectives. We also expected the Canada Council to identify, assess, mitigate, and monitor its risks, reporting them to the Board of Directors.

**59.** We found that members of the Board and management had sound knowledge of the key risks faced by the Canada Council. Various mechanisms, such as a peer assessment process, an investment management and control framework, and a risk-based audit plan were in place to manage these high-level risks. The risk-based audit plan had identified eight organizational challenges or risks that the Canada Council needed to manage. However, we noted that the Canada Council had not adopted an integrated risk management framework that would have enabled it to obtain consolidated information on the risks inherent in its operations and on current risk management practices and controls. With this type of framework, senior Canada Council managers could handle significant risks systematically and comprehensively. The members of the Board would therefore have reasonable assurance that all important risks had been identified in areas such as governance, partnerships, promotion of the arts, accountability, and resource management. They would also have reasonable assurance that systems and practices had been implemented to manage these risks.

**60. Recommendation.** The Canada Council for the Arts should implement an integrated risk management framework.

*Response from the Canada Council for the Arts.* The Canada Council agrees, and will implement an integrated risk management framework.

## Performance measurement and reporting

**61.** Measuring and demonstrating the impact and effect of the Canada Council's awarding of grants and other activities is a constant challenge. All Canadian organizations that work to support the arts face this same problem. Canada Council managers do not control the impact and effect of grants, but they do endeavour to influence them through certain activities, such as awarding grants with a view to ensuring the financial viability of arts organizations, providing funding for tours, or enabling artists to develop professionally. Nonetheless, it is important to assess the extent to which the grants awarded by the Canada Council contribute to fulfilling its mandate and achieving its objectives. This information can elucidate decisions regarding future grant programs, the termination of activities, the reallocation of resources, and the launching of new initiatives in support of the arts.

62. We expected the Canada Council for the Arts to have a performance management framework in place that provides clear and concrete performance expectations, as well as credible and balanced reporting of performance results. Such a framework promotes accountability before Parliament, Canadian taxpayers, and stakeholders.

63. We noted that the Canada Council has good processes in place for measuring its performance. However, it could better use certain sources of information to improve its knowledge of the impact and effect of the grants it awards.

**The Canada Council compiles and publishes core information on its achievements**

64. We examined the Canada Council's performance management and measurement framework and the various reports, studies, and research it has published or posted on its website.

65. In terms of performance management, the Canada Council has developed an action plan to implement strategic directions for 2008–11. In terms of accountability, the Canada Council recognizes that it has to continually demonstrate its relevance and value to the national arts community, to Canadian society in general, and to Parliament. The Canada Council has published its main operational results in its annual report and in the set of statistics that accompany it. The report contains information on the grants, awards, and endowments that the Canada Council bestows and on the Canada Council's financial status, including its investment income. In this way, the public can see the number of applications for funding that the Canada Council has received, the number of artists or arts organizations that applied for funding for the first time, the support provided to Aboriginal peoples and various cultural groups, and the distribution of grants among the provinces and arts disciplines. The Canada Council has made this information available on its website.

66. The Canada Council has also conducted a few program evaluations and impact studies. For example, it has evaluated the program that supports book publishing in 2006. It recently analyzed the impact of its touring grant programs on dance, music, and theatre. This study allowed the Canada Council to answer various questions: Which artists and organizations received financial assistance? How many communities did these artists and arts organizations visit? How much income was earned from these tours? Studies such as these enable the Canada Council to better understand its success in fulfilling its statutory mandate and achieving its strategic objectives.

67. We noted some opportunities for improvement. The final report that the Canada Council requires of recipient artists and arts organizations on their use of funding is a useful source of information for assessing the impact of programs. However, the quality and quantity of information varies considerably from one report to another. In our opinion, in assessing the effect of its programs, the Canada Council could make greater use of this source of information.

68. The Canada Council currently offers over 140 grant programs for artists and arts organizations. This number may increase as artistic practice diversifies. Some of these programs have been in existence for a long time, while others have just been created. The grants awarded through several programs are relatively modest. Maintaining such a large number of programs means that administrative costs must be incurred to constantly update the programs. While the Canada Council recently adopted new strategic directions and is aligning its activities and resources with these directions, there is a need to examine the range of these 140 programs to determine whether they adequately support the new strategic directions. This could allow the Canada Council to improve its efficiency.

69. **Recommendation.** The Canada Council for the Arts should

- clarify the information that it needs from grant recipients, in order to better evaluate the results of its grant programs;
- examine the range of its 140 financial assistance programs, to facilitate their administration and evaluation.

*Response from the Canada Council for the Arts.* As part of its Organizational Design Review in 2007, the Council identified program evaluation as a key function within the organization. In January 2008, a new division called "Strategic Initiatives" was created, with responsibility for, among other things, developing the program evaluation, monitoring and reporting function. This work will include responding to the recommendations above, as well as reviewing the range of the Council's programs to ensure that program objectives are aligned with its strategic vision, including a formal process for undertaking these reviews on a regular, ongoing basis.

## Human Resources

70. The knowledge and expertise of the staff at the Canada Council stem largely from its knowledge of the arts community and its ability to administer the peer assessment process in a fair, consistent, and objective manner. It is important for the fulfillment of its mandate that the Canada Council retain this knowledge and expertise. The Canada Council has therefore taken a number of measures to further enhance

the role of its human resources and their importance in the fulfillment of its mandate. A Director of Human Resources has been appointed to the Executive Management Committee, and the Human Resources Division is now independent from the Finance and Administration Division. In 2007, the Canada Council undertook a formal review of its organizational structure to examine how well it supported the fulfillment of its mandate. A new organizational structure has been in place since January 2008.

**71.** We expected the Canada Council for the Arts to have systems and practices in place to ensure that its workforce has the key competencies and skills to achieve its strategic and operational objectives.

**72.** We found that the Canada Council has the following core human resources management systems: human resources planning, staff performance appraisal, and training.

**The Canada Council has the human resources management systems necessary to retain a staff with the skills and qualifications required to fulfill its mandate**

**73.** We examined the systems in place for human resources planning, employee performance appraisal, and training.

**74. Human resources planning.** The Canada Council has a relatively stable staff of about 200. When positions are vacated, they are easily filled. At the time of our audit, the Canada Council did not have an official human resources plan. However, it had basic data on its staff, such as age and work experience, which it had used to determine that about 35 people, including 10 managers, would be eligible to retire in the next five years. A review of its organizational structure, begun in early 2007, gave the Canada Council a renewed understanding of the importance of proper human resources planning, including succession planning, which needs to become part of its operational planning.

**75. Staff performance appraisal.** The Canada Council has a staff appraisal system that is functioning effectively: the Canada Council's objectives and strategies have been disseminated to staff; performance objectives were set at the beginning of the year for all staff, including managers; performance appraisals were carried out on time; and the Human Resources Division reviewed all performance appraisals to ensure that the performance level assigned was properly justified.

**76. Staff training.** The Canada Council has a training plan based on staff training and development needs identified during the staff

performance appraisal process. About one percent of the Canada Council's administration budget is earmarked for work-related staff training, supervision, and language training. Based on our review of a sample of grant files, there is a lack of uniformity in the application of administrative policies involved in grant processing and in the documentation of program officers' decisions. The Canada Council's managers have indicated that they are well aware of the need for training in this area.

## **Conclusion**

77. The Canada Council's systems and practices involved in grant management, governance, strategic planning, performance measurement and reporting, and human resources management provide it with reasonable assurance that its assets are safeguarded and controlled, that its resources are managed economically and efficiently, and that its operations are carried out effectively. However, it would be in the interests of the Canada Council for the Arts to improve some of its policies and ensure that certain decisions are documented.

## About the Special Examination

### Objective

Under section 138 of the *Financial Administration Act* (FAA), federal Crown corporations are subject to a special examination once every five years. Special examinations of Crown corporations are a form of performance audit where the scope is set by the FAA to include the entire corporation. In special examinations, the Auditor General provides an opinion on the management of the corporation as a whole. The opinion for this special examination is found on Page 3 of this report. The Canada Council for the Arts has been subject to section 138 of the FAA since 2005.

Special examinations answer the question: Do the corporation's systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively?

### Conflict of interest disclosure

Assistant Auditor General Mark G. Watters was Acting Director of the Canada Council for the Arts during part of the period when decisions on 2006–07 activities and accounts were made, that is, from 1 April to 26 June 2006. He was Secretary Treasurer until he left the Canada Council in November 2006. Shortly thereafter, he was appointed to the position of Assistant Auditor General responsible for the arts and culture portfolio at the Office of the Auditor General of Canada. When this audit was announced, he immediately indicated that he had been involved in the files that our audit could cover, and he withdrew from this audit and any activity related to our special examination of the Canada Council for the Arts.

### Key systems and practices examined, criteria and approach

At the start of this special examination, we presented the Corporation's Audit and Finance Committee with an audit plan. The plan identified the systems and practices and the related criteria that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and monitored, its resources managed economically and efficiently, and its operations carried out effectively. These are the systems, practices, and criteria that we used for examination. We examined the processing of grant applications using a sample of 30 applications processed in 2006–07.

| Key systems and practices examined    | Criteria                                                                                                                                                                                                                                                                                                                                                                                                          | Audit approach                                                                                                                                                                                               |
|---------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Grant application processing          | We expected the Canada Council for the Arts to have clear policies and procedures to ensure that grant recipients are selected and that grants awarded, administered, and monitored in a manner that is fair, consistent, and objective.                                                                                                                                                                          | Public information on grant programs offered<br>Grant application process<br>Grant awarding process<br>Peer assessment process<br>Grant information management system<br>Staff competence and qualifications |
| Governance                            | We expected the Canada Council for the Arts to have a corporate governance framework and practices that perform well and that meet the expectations of best practices in Board stewardship, stakeholder relations, and communication with the public.                                                                                                                                                             | Role and functioning of the Board of Directors and its standing committees<br>Board of Director training and orientation<br>Conflict of interest policy<br>Investment Committee                              |
| Strategic planning                    | We expected the Canada Council for the Arts to have defined clear strategic directions and to have set specific, measurable goals and objectives for achieving its mandate. We also expected that the strategic direction and goals would take into account the risks identified, the need to control and protect the Canada Council's assets, and the need to manage its resources economically and efficiently. | Strategic planning process<br>Strategic, administrative and operational planning and standardization<br>Risk management practices                                                                            |
| Performance measurement and reporting | We expected the Canada Council for the Arts to have a performance management framework in place that provides clear and concrete performance expectations, as well as credible and balanced reporting of performance results. Such a framework promotes accountability before Parliament, Canadian taxpayers, and stakeholders.                                                                                   | Performance appraisal<br>Reports                                                                                                                                                                             |
| Human Resources                       | We expected the Canada Council for the Arts to have systems and practices in place to ensure that its workforce has the key competencies and skills to achieve its strategic and operational objectives.                                                                                                                                                                                                          | Human resource strategic planning<br>Performance appraisal system<br>Training                                                                                                                                |

**Audit work completed**

Audit work for this special examination was substantially completed on 30 April 2008.

**Audit team**

Assistant Auditor General: Sylvain Ricard

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## Appendix List of recommendations

The following is a list of recommendations found in the Special Examination Report. The number in front of the recommendation indicates the paragraph where it appears in the report. The numbers in parentheses indicate the paragraphs where the topic is discussed.

| Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Grants to artists and arts organizations</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <p>38. The Canada Council for the Arts should</p> <ul style="list-style-type: none"> <li>• enter into its grant database the date all the applications are sent, so as to monitor the application of its eligibility policies and procedures;</li> <li>• include in the grant files the rationale for the decisions made by officers at various stages in processing grant applications;</li> <li>• enhance controls in processing and approving the grant applications of an exceptional nature and clearly communicate the awarding of these grants to the Board and the public.</li> </ul> <p>(17–37)</p> | <p>The Canada Council agrees with these recommendations, and will implement the following procedures:</p> <ul style="list-style-type: none"> <li>• The date grant applications are sent to the Council will be entered in the Arts Tracking System (ATS) database to enable the staff to monitor the application of eligibility policies.</li> <li>• Documenting the rationale of decisions made by officers started in 2007–08. The Canada Council will continue to review and monitor how decisions are documented in grant files with a view of having improved documentation throughout the grant process, and will propose specific actions to ensure this is done consistently and appropriately.</li> <li>• The grants awarded by the Director of the Arts Division (now called the Arts Disciplines Division) are internally assessed by Program Officers and Section Heads, and recommended for approval to the Director of Arts Disciplines. A complete review of this process will be undertaken that will include elements such as eligibility criteria, assessment and approval process, as well as communicating and publishing results.</li> </ul> <p>These grants will be communicated to the Board and to the public through distinct program reports that clearly illustrate the assessment and approval process. As well, information about internal assessment processes will be added to the Canada Council's Peer Assessment Policy in 2008–09.</p> |
| <b>Governance of the Canada Council for the Arts</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <p>51. The Canada Council for the Arts should update the terms of reference of the Audit and Finance Committee and the Investment Committee. (39–50)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <p>The Canada Council By-Laws outline the terms of reference for all Board committees. A review of the By-Laws began in early 2008 and will include updating the terms of reference for the Audit and Finance Committee and the Investment Committee.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

| Recommendation                                                                                                                                                                                                                                                                                                                                                                                                       | Response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Strategic planning</b><br><br><b>60.</b> The Canada Council for the Arts should implement an integrated risk management framework. (52–59)                                                                                                                                                                                                                                                                        | The Canada Council agrees, and will implement an integrated risk management framework.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Performance measurement and reporting</b><br><br><b>69.</b> The Canada Council for the Arts should <ul style="list-style-type: none"><li>• clarify the information that it needs from grant recipients, in order to better evaluate the results of its grant programs;</li><li>• examine the range of its 140 financial assistance programs, to facilitate their administration and evaluation.</li></ul> (61–68) | As part of its Organizational Design Review in 2007, the Council identified program evaluation as a key function within the organization. In January 2008, a new division called “Strategic Initiatives” was created, with responsibility for, among other things, developing the program evaluation, monitoring and reporting function. This work will include responding to the recommendations above, as well as reviewing the range of the Council’s programs to ensure that program objectives are aligned with its strategic vision, including a formal process for undertaking these reviews on a regular, ongoing basis. |